

Message Text

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ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 EB-03 SP-02 TRSE-00 NSC-05 FRB-01

CIAE-00 SSO-00 NSCE-00 ONY-00 /034 W

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FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 1564

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ECONOMIC SITREP NO. 23, THURSDAY, DECEMBER 2

REF: ROME 19632

1. SUMMARY. FIAT ANNOUNCED ASTONISHING DEAL WITH LIBYA WHICH COULD RECYCLE MORE THAN 400 MILLION PETRODOLLARS IN EXCHANGE FOR CONTROL OF UP TO 13 PERCENT OF COMPANY BY 1982. HIGH-LEVEL TREASURY OFFICIAL OPTIMISITIC ON LABOR COST REDUCTION BUT THINKS ZERO GROWTH IN 1977 WOULD BE POLITICALLY HARD TO ACCEPT. PARTIAL FREEZE OF COST-OF-LIVING ESCALATOR MAY BE VOTED BY SENATE TODAY WITH A NUMBER OF FLOOR AMENDMENTS. LIRA STABLE. END SUMMARY.

2. FIAT DEAL WITH LIBYA TAKES EVERYONE BY SURPRISE. FIAT PRESIDENT GIANNI AGNELLI TOOK EVERYONE BY SURPRISE IN ANNOUNCING TO PRESS DECEMBER 1 NEARLY ONE-HALF BILLION DOLLAR DEAL WITH LIBYA. NEGOTIATIONS HAD BEEN TAKING PLACE FOR 18 MONTHS IN COMPLETE SECRECY AND ONLY NOW CONCLUDED. ESSENCE OF DEAL PROVIDES 10 PERCENT INCREASE IN FIAT CAPITAL THROUGH ISSUE OF 20 MILLION NEW COMMON SHARES AND 10 MILLION PREFERRED SHARES, COMPLETELY UNDERWRITTEN BY LIBYAN ARAB FOREIGN BANK, AT 6,000 LIRE EACH, ABOUT FOUR TIMES THE PRESENT MARKET PRICE. AT THE SAME TIME, FIAT WILL ISSUE 90 MILLION OF 10 YEAR CONVERTIBLE BONDS, ALSO COMPLETELY

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UNDERWRITTEN BY LIBYA, WITH FACE VALUE 1,000 LIRE AT 9.5 PERCENT

INTEREST, WHICH WOULD BEGIN TO BE AMORTIZED AT END OF 1982. BONDS EXPECTED, HOWEVER, TO BE CONVERTED INTO A FIXED RATIO OF COMMON AND PREFERRED SHARES IN PERIOD 1978 THROUGH 1982. PRICE OF SHARES WOULD AVERAGE 6,000 LIRE. THIRD PART OF DEAL CONSISTS OF \$104 MILLION TEN-YEAR LOAN AT VARIABLE INTEREST RATES BRINGING TOTAL DEAL TO \$415 MILLION, ABOUT ONE-FIFTH OF THE BALANCE OF PAYMENTS DEFICIT. LIBYANS WOULD OBTAIN TWO OUT OF 15 SEATS ON BOARD OF DIRECTORS AND ONE OF FIVE ON EXECUTIVE COMMITTEE. ALL PRESS FRONT-PAGE NEWS AND GENERAL REACTION THUS FAR SEEMS ONE OF ADMIRATION AT SUCH A LARGE AND ADVANTAGEOUS DEAL MIXED WITH SOME MISGIVINGS THAT 13 PERCENT OF THE COUNTRY'S INDUSTRIAL SHOWCASE IS BEING SOLD ABROAD. (SEE TURIN 0417)

3. HIGH-LEVEL TREASURY OFFICIAL CAUTIOUSLY OPTIMISTIC. A SENIOR TREASURY OFFICIAL IN COMMENTS TO EMBOFFS EXPRESSED HOPE THAT ITALY WOULD NOT, BECAUSE OF HARSH CONDITIONS IMPOSED BY INTERNATIONAL CREDITORS, BE FORCED TO ACCEPT ZERO GROWTH IN 1977 BY PRECLUDING INCREASED INVESTMENT. AT SAME TIME, HE EXPRESSED SOME OPTIMISM THAT COST OF LABOR COULD BE REDUCED IN ITALY TO COMPETITIVE LEVELS, ALTHOUGH THE FORM OF THE AGREEMENTS LEADING TO THE COST REDUCTION MAY BE SOMEWHAT DIFFERENT THAN GENERALLY EXPECTED. (SEE SEPTEL DECEMBER 2)

4. SENATE CONTINUES DEBATE ON COST-OF-LIVING ESCALATOR FREEZE. SENATE BEGAN DEBATE OF GOVERNMENT'S DECREE LAW PARTIALLY FREEZING COST-OF-LIVING ESCALATOR PAYMENTS TWO DAYS AGO. HOWEVER, ONLY TODAY ARE FLOOR AMENDMENTS EXPECTED TO BE PROPOSED AND VOTED ON. PRESS REPORTS THAT COMMUNISTS, SOCIALISTS AND SOCIAL DEMOCRATS ARE ALL FOR REDUCING TO ONE YEAR (FROM TWO) THE APPLICABLE TIME PERIOD OF THE FREEZE. THE SAME COMBINATION OF PARTIES APPEAR ALSO TO BE IN FAVOR OF AN UPWARD REVISION OF THE LEVEL OF APPLICABLE INCOME EITHER THROUGH NETTING OUT INCOME TAXES FROM APPLICABLE INCOME RATE OR ACTUALLY RAISING INCOME FLOOR FROM 6 TO 7 MILLION LIRE FOR 50 PERCENT FREEZE AND FROM 8 TO 9 MILLION LIRE FOR 100 PERCENT FREEZE. AN AMENDMENT PROPOSED BY AN INDEPENDENT FROM THE LEFT TO EXTEND FREEZE TO ALL FORMS OF SALARY INCREASES (AN AMENDMENT THE GOVERNMENT FIRST PROPOSED THEN WITHDREW) WILL LIKELY CAUSE THE MOST POLEMICAL DEBATE (AND ASSUMEDLY BE RESOUNDLY REJECTED). VOTE FOR ENTIRE MEASURE WITH AMENDMENTS COULD COME TONIGHT WITH MEASURE THEN MOVING TO THE CHAMBER OF LIMITED OFFICIAL USE

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DEPUTIES FOR CONSIDERATION.

5. MONEY MARKET . DECEMBER 2 LIRA/DOLLAR RATE UNCHANGED AT 865.475 (865.45 ON PRECEDING DAY) ON USUAL VOLUME LEVEL. VOLPE

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, COST OF LIVING, FINANCIAL STABILITY, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 DEC 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: vogelfj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME19710
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760446-0774
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761278/aaaacpxl.tel
Line Count: 111
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: 76 ROME 19632
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2004 by BoyleJA>; APPROVED <08 SEP 2004 by vogelfj>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC SITREP NO. 23, THURSDAY, DECEMBER 2
TAGS: EFIN, IT, LY, FIAT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006